

## Message Text

CONFIDENTIAL

PAGE 01 LONDON 16743 01 OF 02 030113Z

73

ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W  
----- 104159

O 030059Z NOV 75 ZFF 4  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC NIACT IMMEDIATE 6094

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 16743

EXDIS

STADIS//////////

FOR DEPUTY ASSISTANT SECRETARY KATZ

E.O. 11652: GDS  
TAGS: ETRD, EAGR  
SUBJECT: COFFEE: OPTIONS FOR A COFFEE AGREEMENT

REF: KATZ/O'DONNELL TELCON

1. PER KATZ'S REQUEST, FOLLOWING ARE THE OPTIONS WE  
SEE FOR POSSIBLE ECONOMIC PROVISIONS IN A NEW INTER-  
NATIONAL COFFEE AGREEMENT (ICA) AND OUR COMPARISONS AND  
COMMENTS.

2. OPTION 1. BUFFER STOCK

(A) SIZE: IN WORKING PAPER 29 (23 JANUARY), ON  
RESERVE STOCKS, THE ICO PRESENTED AN ANALYSIS OF THE  
AMOUNT OF RESERVE STOCKS REQUIRED TO GIVE ADEQUATE  
INSURANCE AGAINST SUPPLY FLUCTUATION AND PROTECTION  
AGAINST THE SPECULATIVE BUILD UP OF DEMAND WHICH HAS  
GENERALLY FOLLOWED A BRAZILIAN FROST. (IN THE 15 MONTHS  
AFTER THE 1972 FROST, EXPORTS EXCEEDED THE NORMAL VOLUME  
REQUIRED TO COVER DISAPPEARANCE BY 8 MILLION BAGS.) THE  
ICO STUDY REGARDED A GLOBAL RESERVE STOCK OF 20 MILLION  
BAGS AS ADEQUATE. HOWEVER, THE ICO STUDY ASSUMED THE  
WIDE PRODUCTION VARIATIONS IN BRAZIL IN THE PRECEDING  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 16743 01 OF 02 030113Z

12 YEARS WERE UNLIKELY TO BE REPEATED, AND THAT SUPPLY

TRENDS IN THE FUTURE WOULD BE LESS VOLATILE THAN IN THE PAST. THIS ASSUMPTION WAS INVALIDATED BY THE RECENT BRAZILIAN FROST WHICH RESULTED IN A PRODUCTION DROP FROM 27.5 MILLION BAGS IN 74/75 TO 10 MILLION FORECAST FOR 76/77. MOREOVER, POLITICAL INSTABILITY IN ANGOLA, THE FOURTH LARGEST PRODUCER, AND ETHIOPIA CAST DOUBT ON THEIR RELIABILITY. WITH EXPORT GROWTH OF ONLY 1 PERCENT PER YEAR, FAS PROJECTS TOTAL ENDING STOCKS HELD IN PRODUCING COUNTRIES WILL DROP FROM 35.7 MILLION BAGS IN 74/75 TO 8.5 MILLION BAGS IN 77/78 (IN EFFECT, AN EMPTY PIPELINE), LOWEST SINCE 1954/55. A DRAWDOWN OF THIS PROPORTION INDICATES THE DIMENSION OF PRODUCTION FLUCTUATIONS. THUS, TO PROTECT THE CONSUMER, WE FEEL A BUFFER STOCK, TO BE EFFECTIVE, SHOULD BE AT LEAST 25 MILLION BAGS. THIS WOULD REPRESENT LESS THAN HALF OF NORMAL EXPORTS AND WOULD BE ADEQUATE FOR TWO BAD YEARS SUCH AS WE NOW FACE.

(B) OPERATION: WE ASSUME THE BUFFER STOCK WOULD OPERATE AS THE ONE IN THE TIN AGREEMENT AND AS WE PROPOSED FOR COCOA. IN THE CASE OF COFFEE, THE APPROPRIATE RANGE, IF IT WOULD BE NEGOTIATED IN TODAY'S SITUATION, WOULD BE FROM 60 CENTS PER POUND (ICO INDICATOR) TO 90 CENTS, WITH DEFENSE OF BOTH STARTING SEVERAL CENTS INSIDE THE BAND.

(C) FINANCING: WE ASSUME THE PRUDENT MEANS TO FINANCE THE BUFFER STOCK WOULD BE (AS ICO EXECUTIVE DIRECTOR HAS SUGGESTED) TO COLLECT FUNDS FROM PRODUCING COUNTRIES WHILE PRICES ARE HIGH, FOR USE WHEN PRICES RETURN TO MORE NORMAL OR DEPRESSED LEVELS. NEARLY \$2 BILLION WOULD BE REQUIRED TO PURCHASE 25 MILLION BAGS. AS IN OUR COCOA PROPOSAL, WE WOULD ENVISAGE AN EXPORT TAX. EACH ONE CENT PER POUND TAX WOULD YIELD \$76.7 MILLION IN REVENUE ON ASSUMED ANNUAL EXPORTS OF 58 MILLION BAGS. FIVE CENTS PER POUND WOULD YIELD \$383.5 MILLION. AFTER THREE YEARS, ASSUMING EXPORT GROWTH OF ONE PERCENT, THE FUND WOULD HAVE AVAILABLE \$1.43 BILLION, OR ENOUGH TO PURCHASE 14.4 MILLION BAGS AT 60 CENTS PER POUND. THIS COULD BE LEVERAGED BY

CONFIDENTIAL

PAGE 03 LONDON 16743 01 OF 02 030113Z

BORROWING. WE BELIEVE FIVE CENTS PER POUND TAX IS PERHAPS UNREALISTICALLY HIGH BOTH FOR PRODUCERS AND CONSUMERS AND IS PROBABLY NON-NEGOTIABLE. HOWEVER, IN TERMS OF CONSTITUTING A WORKABLE BUFFER STOCK, IT IS PROBABLY THE MINIMUM PRACTICAL FIGURE.

3. OPTION 2. VARIABLE QUOTAS..

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LONDON 16743 02 OF 02 030119Z

73

ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W

----- 104185

O 030059Z NOV 75 ZFF 4

FM AMEMBASSY LONDON

TO SECSTATE WASHDC NIACT IMMEDIATE 6095

C O N F I D E N T I A L SECTION 02 OF 02 LONDON 16743

EXDIS

STADIS//////////

(A) THERE WOULD BE NO EXPORT QUOTAS OR ELABORATE CONTROLS UNTIL PRICES DROP TO A LEVEL 20 PERCENT BELOW THE AVERAGE PRICE REGISTERED IN THE FIRST THREE OF THE PREVIOUS SIX MONTHS. GIVEN THE TIGHT SUPPLY OUTLOOK FOR THE NEXT TWO YEARS, THIS SHOULD NOT HAPPEN BEFORE 78/79 AT THE SOONEST, DEPENDING BASICALLY ON THE COMEBACK OF BRAZIL'S CROP. A NUMBER OF TABLES REPRESENTING HYPOTHETICAL PRICE EVOLUTION SITUATIONS ARE AVAILABLE IN TRP. THIS FLEXIBLE FORMULA PROVIDES DIFFERENT RESULTS WITH VARIED PRICE EVOLUTIONS. FOR EXAMPLE, IF THE AVERAGE PRICE FOR THE FIRST THREE MONTHS IS 90 CENTS, AND THE PRICE DROPS SUDDENLY TO 72 CENTS, QUOTAS WOULD BE IMPOSED. HOWEVER, IF THE PRICE STARTS AT 90 CENTS AND HAS A GRADUAL DECLINE OF TWO CENTS PER MONTH FOR 25 MONTHS, QUOTAS WOULD BE IMPOSED WHEN PRICES AVERAGED 40 CENTS. THE RECIPROCAL OF THIS FORMULA FOR QUOTA SUSPENSION ALSO APPEARS TO ACT QUICKLY IN CASES OF EXTREME FLUCTUATION BUT SLOWLY AROUND LONGER TERM PRICE TRENDS. HOWEVER, WE MUST REALISTICALLY EXPECT THAT EVEN WITH A GRADUAL PRICE DECLINE, WE WOULD BE UNDER STRONG PRESSURE FOR INTRODUCTION OF EXPORT CONTROLS AT AROUND THE 60 CENTS LEVEL.

(B) THE FORMULA FOR BASING THE VARIABLE PORTION

OF THE QUOTA ON STOCKS WOULD ENSURE THAT ALL OF THE  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 16743 02 OF 02 030119Z

LARGER PRODUCERS HAD AN INCENTIVE TO HOLD STOCKS AND  
BREAK BRAZIL'S TRADITIONAL MONOPOLY ON STOCKS. IN THE  
PAST, IT HAS BEEN THIS STOCK MONOPOLY WHICH HAS GIVEN  
BRAZIL THE ABILITY TO MAKE THE MARKET BOTH BY WITH-  
HOLDING STOCKS IN TIMES OF TIGHT SUPPLY AND DUMPING  
STOCKS IN TIMES OF SURPLUS. IN TABLE I, WE GIVE OUR  
ESTIMATE OF STOCK ACCUMULATION WITH THE QUOTA SYSTEM  
STARTING IN 78/79. THIS DOES NOT TAKE THE VARIABLE  
QUOTA INTO ACCOUNT.

(C) TABLE I. STOCK LEVELS WITH QUOTA SYSTEM

	76/77	77/78	78/79	79/80	80/81
PRODUCTION	61.4	69.2	82.4	84.0	85.7
EXPORTS	57.1	57.6	58.2	58.2	58.2
STOCKS	17.2	8.5	11.8	16.0	21.0
DOMESTIC					
CONSUMPTION	19.7	20.2	20.8	21.6	22.5

4. OPTION 3. OTHER

(A) IT MIGHT BE POSSIBLE TO COME UP WITH OTHER  
OPTIONS ALONG THE LINES OF THE INTERNATIONAL GRAINS  
RESERVE PROPOSAL. HOWEVER, THIS WOULD INVOLVE THE  
COMMITMENT OF THE U.S., AS THE CONSUMER OF COFFEE, TO  
HOLD ROUGHLY 17 PERCENT OF ALL COFFEE RESERVES IF  
BASED ON PARTICIPATION IN TRADE. BRAZIL'S SHARE WOULD  
BE SOMEWHERE BETWEEN 13 AND 15 PERCENT OF RESERVES.  
IF A GNP CRITERIA WERE INCLUDED, THE U.S. SHARE OF  
RESERVES WOULD INCREASE.

5. COMMENT: (A) COMPARING THE VARIOUS OPTIONS, WE  
SEE THE VARIABLE QUOTA FORMULA AS THE MOST FLEXIBLE  
AND CHEAPEST TO CONSUMERS. IT RESULTS IN STOCK LEVELS  
ROUGHLY EQUIVALENT TO THE BUFFER STOCK OPTION. BECAUSE  
PRICE LEVELS ARE GENERALLY MORE DIFFICULT TO PREDICT  
THAN PRODUCTION, THE QUOTA SYSTEM GIVES MORE CONTROL  
OVER STOCKS. THE BUFFER STOCK CAPACITY LEVELS DO NOT  
INDICATE WHAT THE ACTUAL AMOUNT OF RESERVES HELD AT  
ANY GIVEN TIME WOULD BE, ONLY THE UPPER LIMIT.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 16743 02 OF 02 030119Z

RICHARDSON

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** AGREEMENT DRAFT, EXPORTS, COFFEE, MEETINGS, STOCKPILES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 03 NOV 1975  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** greeneet  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975LONDON16743  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D750380-0685  
**From:** LONDON  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19751181/aaaacukw.tel  
**Line Count:** 225  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION SS  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** EXDIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 5  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** EXDIS  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** greeneet  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 01 JUL 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <01 JUL 2003 by ShawDG>; APPROVED <05 NOV 2003 by greeneet>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** COFFEE: OPTIONS FOR A COFFEE AGREEMENT  
**TAGS:** ETRD, EAGR, EPAP, ICO  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006